STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

OF

BENEFICIAL LIFE INSURANCE COMPANY

OF

SALT LAKE CITY, UTAH

AS OF

DECEMBER 31, 2007

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October 16, 2008

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Linda Hall, Commissioner
Secretary, Western Zone, NAIC
State of Alaska
Department of Community and Economic Development
Division of Insurance
550 West 7th Avenue, Suite 1560
Anchorage, AK 99501-3567

Honorable D. Kent Michie, Commissioner
State of Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination, as of December 31, 2007, has been made of the financial condition and business affairs of:

BENEFICIAL LIFE INSURANCE COMPANY
Salt Lake City, Utah

a stock life insurance company hereinafter referred to in this report as the Company and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

We have performed our association examination of Beneficial Life Insurance Company (the Company). The last financial examination of the Company was completed as of December 31, 2003. The current examination covers the period from January 1, 2004, through December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedures Employed

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, and insurance rules promulgated by the Utah Insurance Department (the Department). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles (SSAPs) and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The initial phase of the examination focused on evaluating the Company's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment in addition to work performed by external audit functions and internal audit functions being performed by the Company's parent, Deseret Management Corporation (DMC) Auditing Department. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk, examination procedures were reduced where considered appropriate.

The Company retained the services of a certified public accounting firm, Deloitte & Touche LLP, to audit its financial records for the years under examination. An unqualified opinion was rendered for all years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

Status of Prior Examination Findings

There were no adverse findings noted in the report of examination as of December 31, 2003. The prior examination findings were either corrected during this examination period or addressed in this examination report.

HISTORY

General

The Company was organized under the laws of the state of Utah as a capital stock life insurance company on May 5, 1905. The original incorporators were primarily members and associates of The Church of Jesus Christ of Latter-day Saints (the Church). In 1927, the Corporation of the President of The Church of Jesus Christ of Latter-day Saints (Corporation of the President), a Utah Corporation, acquired all of the outstanding capital stock of the Company excluding directors' qualifying shares. Subsequent changes allowed the Corporation of the President to acquire the qualifying shares and become sole owner of the Company's outstanding capital stock by 1970. As of December 31, 2007, The First Presidency of the Church indirectly controlled the Company by virtue of its power to appoint the trustees of DMC Reserve Trust, which controlled Deseret Management Corporation, the Company's immediate parent.

The Company operates under U.C.A. Title 31A. The Company's Articles of Incorporation and Bylaws were amended and restated as of December 20, 2002, and filed with the Department in February 2003. The Commissioner approved the restated Articles of Incorporation on June 10, 2003.

On April 7, 2004, the Company filed a Business Name Registration/DBA with the Utah Department of Corporations to do business as Beneficial Financial Group. The new name reflects the Company's strategic plan to provide financial services to its policyholders. The Company continues to operate as Beneficial Life Insurance Company.

The Company issues individual life, including universal life, whole life and term life, and individual disability insurance policies, and writes annuities in 49 states and in the District of Columbia. The Company markets its individual products through career insurance agencies and independent life insurance agencies.

Capital Stock

As of the examination date, the Company had authorized capital of Ten Million Dollars ($10,000,000), divided into Four Hundred Thousand (400,000) shares of common stock with a par value of Twenty-five Dollars ($25) per share. One hundred thousand shares (100,000) were issued and outstanding for a total of Two Million Five Hundred Thousand Dollars ($2,500,000) paid in capital and Two Hundred Forty Million Five Hundred Six Thousand Eight Hundred Ninety Dollars ($240,506,890) gross paid in and contributed surplus. As of December 31, 2007, Deseret Management Corporation, a holding company affiliated with The Church of Jesus Christ of Latter-day Saints, held one hundred percent (100 %) of the Company's capital stock.

During the fourth quarter of 2007, the Company notified the Department of significant other than temporary impairments in the amount of $221.9 million in the third quarter and fourth quarters of 2007. To offset this significant impairment, the Company's parent, Deseret Management Corporation, contributed an additional $206 million in capital in the fourth quarter of 2007.

Dividends to Stockholders

The payment of dividends by the Company to its shareholder is limited and cannot be made except from earned profits of the Company and, in certain circumstances, without the prior approval of the Utah Insurance Department. During the period under examination, the Company declared and paid the following dividends to its sole stockholder, Deseret Management Corporation:

Year	Type	Amount
2005	Ordinary	$5,500,000

Management

Directors serving as of December 31, 2007, were as follows (including location and principal occupation):

Name	Principal Occupation
Lloyd Aldin Porter, Chairman Bountiful, Utah	Retired General Manager of Mutual of New York Life Insurance Company
Kent Hales Cannon Salt Lake City, Utah	President & Chief Executive Officer Beneficial Life Insurance Company
Kim Bryce Clark Rexburg, Idaho	President Brigham Young University, Idaho
Ned Cromar Hill Provo, Utah	Dean of Marriott School of Business Brigham Young University
Nolan Eldon Karras Roy, Utah	President S K Hart Management
William Henrick Nelson Salt Lake City, Utah	President Intermountain Health Care
Karl Fred Skousen Provo, Utah	Advancement Vice President Brigham Young University
Mary Anne Quinn Wood Provo, Utah	Attorney Wood, Crapo L.L.C.

Officers of the Company as of December 31, 2007, were as follows:

Principal Officer	Office
Kent Hales Cannon	President & Chief Executive Officer
Robert Roy Dalley*	Senior Vice President & Chief Financial Officer
Hardi "K" Jenkins	Senior Vice President, Product Management
Michael Paul Jensen	Senior Vice President & Chief Marketing Officer
Ted Duane Lewis	Senior Vice President, General Counsel & Corporate Secretary
Christopher Michael Miller	Senior Vice President, Independent Distribution
Steven Tyler Norton	Senior Vice President & Chief Distribution Officer
Peggy Michele Stone	Senior Vice President, Human Resources
Steven William Terry	Senior Vice President, Customer Operations & Chief Information Officer
Vacant **	Senior Vice President & Chief Investment Officer
Jerrold J. Borrowman	Vice President, Advanced Markets & Professional Development
Douglas Reed Hancock*	Vice President & Controller
Paul Evan Hill***	Vice President, Financial Institutions
William Pak-Wah Leung	Vice President & Chief Valuation Actuary
James Christopher Mason	Vice President, Career Distribution
Ronald Lee Owen****	Vice President, Underwriting & Customer Service
John David Pearce	Vice President, Chief Compliance Officer

*Subsequent to the examination period, Robert Roy Dalley resigned from the position of Senior Vice President and Chief Financial Officer. Douglas Reed Hancock was appointed Senior Vice President and Chief Financial Officer, effective May 2008.
**In April 2008 the Company hired Thomas Kirby Brown as the Chief Investment Officer.
***Paul Evan Hill's position was eliminated in 2008 when the Company discontinued marketing through financial institutions.
****Ronald Lee Owen retired from the Company effective February 29, 2008.

Committees of the Company as of December 31, 2007, were as follows:

Executive Committee	Audit Committee
Lloyd Aldin Porter, Chair	Mary Anne Quinn Wood, Chair
Kent Hales Cannon	William Henrick Nelson
Nolan Eldon Karras	Karl Fred Skousen
	Michael R. Weiler **

Human Resources Committee	Investment/Asset Liability Management Committee
Lloyd Aldin Porter, Chair	Nolan Eldon Karras, Chair
Kent Hales Cannon	Kent Hales Cannon
Althea R. DeBrule*	Robert Roy Dalley *
Peggy Michele Stone *	Ned Cromar Hill
Mary Anne Quinn Wood	Kent A. Misener *

* Non-board members
** Non-voting consultant to the Audit Committee, neither a director nor committee member

Conflict of Interest Procedure

The Company had an established written procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers, directors, or responsible employees which was in or was likely to conflict with the official duties of such person. Written disclosures made during the period of examination were reviewed without exception.

Corporate Records

A review of the minutes of the Board of Directors and stockholders meetings revealed conformity with the requirements of the Articles of Incorporation concerning matters covered and authorizations made. The minutes approved and supported Company transactions.

The previous examination report as of December 31, 2003, was distributed to the Board of Directors at the meeting held on August 26, 2005; the Board of Directors approved the minutes of that meeting on September 26, 2005.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Company was not involved in any acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance during the examination period.

Surplus Debentures

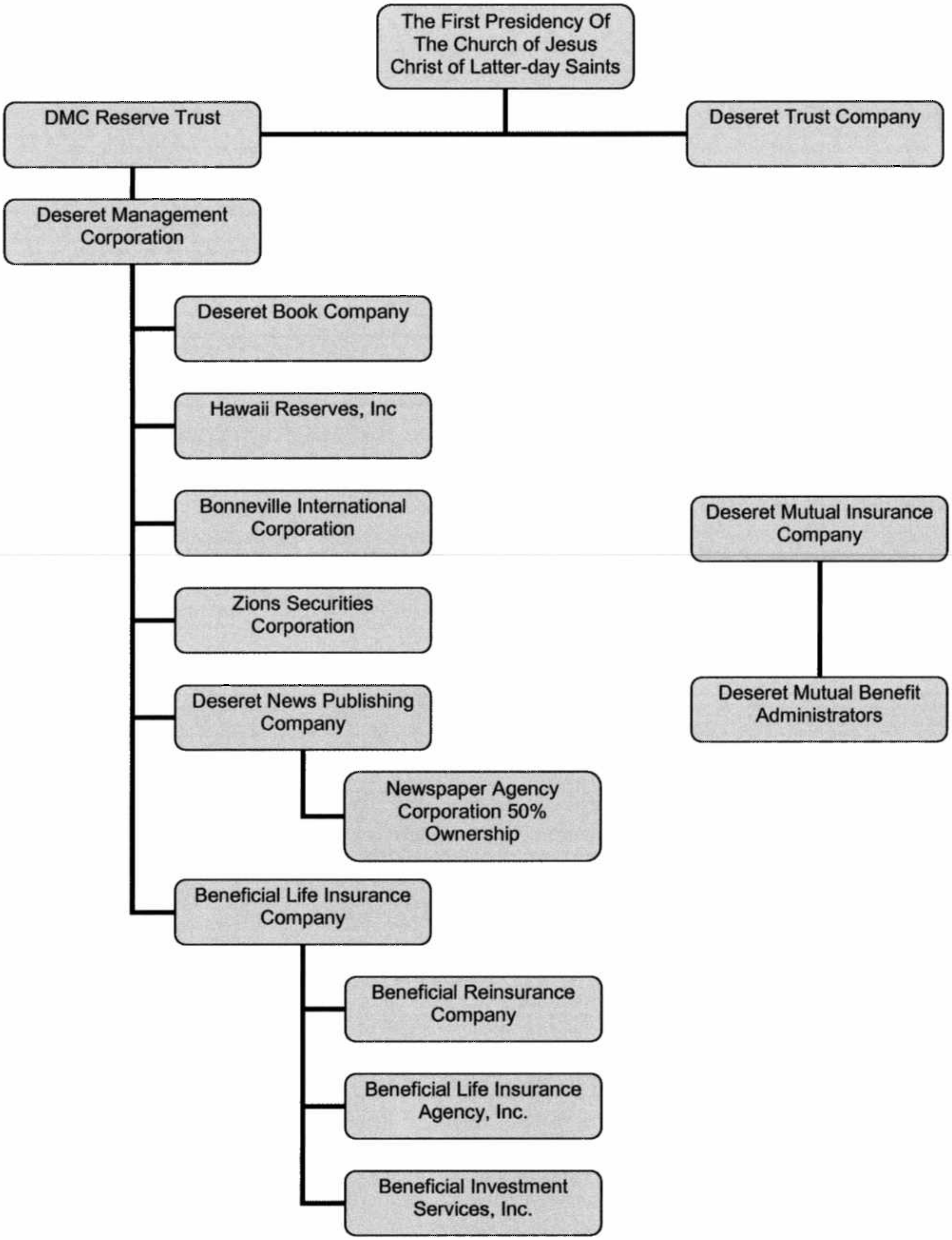
No surplus debentures were issued or were outstanding during the examination period.

AFFILIATED COMPANIES

The Company is a member of an insurance holding company system. Through common ownership, management, or control, the Company is affiliated with numerous entities within the holding company system. In 1996, the Department permitted the Company to file an abbreviated organizational chart with its holding company registration statements and annual statements. The approved chart excluded religious and educational entities. By order of the Insurance Commissioner of the state of Utah, dated October 22, 1998, DMC was designated the entity to be considered the Company's ultimate controlling party.

The following organizational chart, as reported in the 2007 annual statement and the 2007 holding company registration statement filing, presents the identities and interrelationships between the parent and its affiliates on December 31, 2007:

INSURANCE HOLDING COMPANY SYSTEM



Transactions with Affiliates

The Church of Jesus Christ of Latter-day Saints is an unincorporated religious association, which is overseen by the three members of the First Presidency. The First Presidency indirectly controls the Company by virtue of its power to appoint the trustees of DMC Reserve Trust. DMC Reserve Trust is a trust created by The Church of Jesus Christ of Latter-day Saints. DMC Reserve Trust holds no assets other than the stock of Deseret Management Corporation. While DMC Reserve Trust holds all of the voting stock of Deseret Management Corporation and therefore may have an indirect ability to direct the policies and management of the Company, its sole purpose is to hold Deseret Management Corporation's stock in trust for religious, charitable and educational purposes. Deseret Management Corporation is the entity that has the direct ability to influence the management and policies of the Company.

Deseret Mutual Insurance Company (DMIC) and Deseret Mutual Benefit Administrators (DMBA) are controlled by the companies identified in the chart and other affiliates, to provide employee benefits. DMBA provides Company employees with life, disability, medical, and dental insurance through Deseret Healthcare, a self-insured trust. The Company provides excess group life insurance and accidental death and dismemberment insurance to Deseret Healthcare, the company which came into existence in 1981 for the purpose of administering DMBA's health maintenance organization (Medical Plan B).

Beneficial Investment Services, Inc., a broker dealer subsidiary which receives commissions on sales of Securities and Exchange Commission (SEC) registered products, was created in March 2006. In December 2007, the Company created a captive reinsurer, Beneficial Reinsurance Company, to provide reserve relief for in-force secondary guarantee universal life business. Operations began on December 31, 2007.

FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is $2,250,000. As of December 31, 2007, the Company had fidelity coverage with a single loss limit of $4,000,000 which exceeds the NAIC suggested amount. In addition to the general fidelity bond, the company has an ERISA bond in the amount of $500,000 through Travelers that provides fidelity coverage for several nonqualified deferred compensation plans for home office and field personnel.

Under the terms of the Master Lease Agreement with Property Reserve, Inc. (PRI), as of October 9, 2007, the responsibility to carry property, boiler and machinery, and general liability coverage on the former Beneficial Life Tower (owned by the Company) has transferred to PRI. The Company continues to maintain Commercial Property and General Liability coverage for its new locations at Social Hall Plaza and Gateway Tower West (BLIC Data Center). These policies are issued by St. Paul Fire and Marine Insurance Company and maintain an Excess Liability coverage of $14,000,000, Commercial Inland Marine coverage of $45,000, and Automobile coverage of $1,000,000 through St. Paul Fire and Marine Insurance Company.

The Company has Excess Liability policies with: AIG in the amount of $10 million for claims in excess of $15 million, XL Insurance Company LTD in the amount of $100 million for claims in excess of $25 million, and ACE Bermuda in the amount of $50 million for claims in excess of $125 million. This excess liability coverage is provided by the Corporation of the President (COP) of The Church of Jesus Christ of Latter-day Saints. The Automobile Liability policy with AIG has coverage of $75,000 provided by the COP of the Church.

The Company is also self-insured for Workers' Compensation in the statutory coverage amount through the COP of the Church.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The majority of qualified, full-time company employees are covered under the Deseret Mutual Master Retirement Plan (Pension Plan), which is a noncontributory defined benefit plan provided to affiliated companies and organizations. Qualified employees must be age 21 or older and have been employed at least one year with 1,000 hours worked. Pension benefits are based on years of service and final average salary, which is calculated using the highest five consecutive years of the last ten years of employment. The Company's funding policy over the last several years has been to contribute at least the minimum amount required by applicable laws and regulations.

In addition to pension benefits, the Company provides monetary benefits (fixed monthly dollar amounts for the purchase of medical, dental, and life insurance) for retired employees (the OPEB Plan). The retirees pay the difference between the fixed amounts provided by Beneficial and the total premiums for this insurance coverage. The Company has not committed to make any increases in the fixed monthly dollar amounts. To be eligible for OPEB Plan benefits, employees must have earned pension benefits, have insurance coverage, and be employed when they reach retirement age.

The Company also participates in the Deseret Mutual Thrift Plan (Thrift Plan), a defined contribution savings plan also provided to certain affiliated companies or organizations. The Thrift Plan covers substantially all qualified full-time employees. Employees may contribute up to regulatory limits. An employee must contribute 5% of salary to earn the maximum employer contribution of 4%.

The Company sponsors a qualified defined contribution retirement plan for its full-time sales agents. This plan requires a participant contribution of 2% to receive the Company's matching contribution of 6%.

In addition, the Company has two elective, nonqualified deferred compensation plans, one for highly compensated employees and the other for sales agents. Elective contributions are withheld from compensation and are paid out over various time frames as elected by the participant and consistent with current tax regulations.

Finally, the Company has another nonqualified deferred incentive compensation plan for executive-level employees. Contributions to the plan are dependent on various performance measures. Two-thirds of the annual deferred compensation is paid out in the year following the year in which it is earned. The remaining one-third is matched by the Company and is paid out after a five-year deferral. The Company match is not vested until after the 5-year deferral period.

STATUTORY DEPOSITS

The following security was held on deposit in Utah for the benefit of all policyholders, claimants and creditors of the Company.

State	Description	Book Value	Fair Value
Utah	US Treasury Bill	$ 1,493,857	$ 1,573,590

Special deposits not held for the benefit of all policyholders, claimants, and creditors, but held for the policyholders, claimants, and creditors of a particular jurisdiction as of December 31, 2007, were as follows:

State	Description	Book Value	Fair Value
Arkansas	US Treasury Note	$ 149,386	$ 157,359
Georgia	US Treasury Note	49,795	52,453
New Mexico	US Treasury Note	104,570	110,151
North Carolina	US Treasury Note	398,362	419,624
Virginia	US Treasury Note	79,672	83,925
TOTAL		$ 781,785	$ 823,512

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company issues life, annuity, and disability insurance policies. Life policies included universal, whole life, and term. Life insurance was available under the general categories of individual or group, smoker or non-smoker, and participating or non-participating. Depending on the category of the policy and the face amount requested, applications were underwritten non-medically; however, the Company reserved the right to require a medical examination whenever it was deemed necessary. The Company issued non-tax qualified and tax qualified deferred and immediate annuities. Long and short term disability income and individual and group medical insurance made up a small portion of the Company's total premium volume.

Several additional benefits were available as policy riders that could be attached to the above policies. These riders included accidental death, disability waiver of premium, guaranteed insurability, spouse and dependant coverage, supplemental voluntary group life, accelerated benefits and an accelerated death benefit rider for long term care.

A sample of universal life policies with term riders was selected for testing. In four incidents (29%) the illustration narrative summary regarding the Term Life Rider was inconsistent with the illustration's policy values chart. Additionally, in another incident (7%), the illustration was not in the file. However, a summary of the policy provided by the Company was inconsistent. Specifically, one file indicated that there was a 15-year term rider, which was expiring in 2058 and the second policy indicated that there was no term rider.

The goal of Utah Administrative Code (U.A.C.) Rule R590-177 is to ensure that illustrations do not mislead purchasers of life insurance and to make illustrations more understandable. The findings indicate the Company did not comply with U.A.C. Rule R590-177 by ensuring illustrations are consistent with the product being sold.

Territory and Plan of Operation

The Company is licensed in 49 states and the District of Columbia, excluding American Samoa, Guam, New York, Puerto Rico, U.S. Virgin Islands and Northern Marianas.

Numerous instances were noted where the Company's records of appointed agents did not agree with that of the Department records, including terminations of agents. The Company did not comply with U.C.A. § 31A-23a-115(1).

Advertising and Sales Material

The Company's insurance agencies and individual agents did most of the Company's advertising. Agent contracts require the pre-approval of advertisements utilizing the Company's name or logo. During the exam period, the Company has been increasing its sales force through focus on the independent market.

Treatment of Policyholders

The list of complaints received by the Department was compared to the complaints identified by the Company. It was noted that four of the thirteen complaints (31%) received by the Department were not recorded on the complaint log maintained by the Company.

REINSURANCE

Assumed

As of December 31, 2007, reinsurance assumed by the Company included individual and group yearly renewable term, individual life and annuity coinsurance, individual life and annuity modified coinsurance, individual and group accidental death benefits, and group accident and health insurance. A majority of the assumed business represented closed blocks of business. The Company's retention on assumed business was $250,000.

Ceded

As of December 31, 2007, the Company's retention schedule shown below includes a combination of individual life insurance, term riders and accidental death insurance (if applicable).

Maximum Retention Limit Schedule

Issue Age	Standard	Tables A - D	Tables E - H	Tables I – P
0-75	$500,000	$500,000	$500,000	$500,000
76-80	$500,000	$500,000	$250,000	$250,000
81-89	$250,000	$250,000	$250,000	$250,000
90+	$250,000	$250,000	$250,000	$250,000

Business that did not meet the criteria for automatic reinsurance was ceded on a facultative basis. Facultative reinsurers included all of the companies accepting risks on an automatic basis.

The Company has issued a significant number of universal life (UL) insurance policies with secondary guarantees that are expected to create significant redundant reserves, or reserves that are not expected to be drawn upon as death benefits. These redundant reserves are generated as a result of secondary mortality and interest guarantees that are more aggressive than the conservative mortality and interest assumptions used in the statutory reserving process. Approximately 60% of the universal life business sold by the Company contains secondary guarantees. These additional statutory, redundant reserves that are required under Actuarial Guidelines are expected to place significant strain in Beneficial's statutory surplus and earnings.

The Company considered the option to implement a facility for redundant reserves to which these reserves can be transferred and supported by a letter of credit, thus the creation of its subsidiary, Beneficial Reinsurance Company (BRC). This subsidiary provides reserve relief for in-force secondary guarantee universal life business. The arrangement provided a reinsurance credit of $32,574,322 from an AXXX securitization arrangement. BRC's reserves are collateralized by a letter of credit from a federally-chartered bank. Premiums ceded by the Company to BRC were $132,112,368 under a coinsurance/modified coinsurance arrangement.

ACCOUNTS AND RECORDS

The Company's accounting system consisted of a general ledger, journals, registers, and statistical records normally maintained by a life insurance company. Most of the records were maintained on a network server-based environment. Data from the network servers was used by the Company to prepare annual and quarterly statement exhibits, schedules, and other financial statements.

The control activity of "management reviews policies to assure that all underwriting and credit reviews have been satisfactorily completed" (Company's underwriting audit process) was not performed consistently, or as extensively as expected by management. Controls were not operating consistently throughout the period - apparently due primarily to employee turnover and a vacancy in the Director of Underwriting position. This lack of management review could lead to the underwriting of and entering into policies with unacceptable risks.

Review of a judgmental sample of 23 suspense accounts indicated areas where the Company could enhance its internal controls. Failure to appropriately control the clearing of suspense accounts presents opportunity for fraudulent transactions to occur.

An examination trial balance, as of December 31, 2007, was prepared from an electronic copy of the Company's computerized general ledger. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary.

FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2007, and the results of its operations during the twelve months then ended, as determined by the examination, are reported in the following financial statements:

BALANCE SHEET as of December 31, 2007

SUMMARY OF OPERATIONS for the Year Ended December 31, 2007

RECONCILIATION OF CAPITAL AND SURPLUS – December 31, 2003 through December 31, 2007

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

BENEFICIAL LIFE INSURANCE COMPANY
BALANCE SHEET (ASSETS)
As of December 31, 2007

ASSETS			NOTES
Bonds (Schedule D)	$	3,137,107,738	(2)
Stocks (Schedule D):			
Preferred Stocks		6,975,437	
Common Stocks		110,484,589	
Real estate (Schedule A):			
Properties held for the production of income		10,115,313	
Cash and Short-term Investments		81,926,493	
Contract loans		118,946,951	
Other invested assets		35,961,088	
Aggregate write-ins for invested assets		1,151,089	
Subtotal cash and invested assets	$	3,502,668,698	
Investment income due and accrued		27,717,846	
Premiums and considerations:			
Uncollected premiums		1,930,889	
Deferred premiums		9,321,487	
Net deferred tax asset		6,248,612	
Guaranty funds receivable or on deposit		2,096,033	
Electronic data processing equipment and software		689,004	
Receivables from parent, subsidiaries and affiliates		1,700,000	
Aggregate write-ins for other than invested assets		7,273,295	
Total Assets	$	3,559,645,864	

BENEFICIAL LIFE INSURANCE COMPANY
BALANCE SHEET (LIABILITIES, CAPITAL & SURPLUS)
As of December 31, 2007

LIABILITIES

Aggregate reserve for life policies and contracts	$	2,776,266,630
Aggregate reserve for accident and health contracts		482,803
Liability for deposit-type contracts		134,107,352
Policy and contract claims:		
Life		8,802,369
Accident and health		3,112,439
Dividends apportioned for payment		3,061,530
Premiums and annuity considerations		246,029
Policy and contract liabilities not included elsewhere:		
Provision for experience rating refunds		12,111
Interest maintenance reserve (IMR)		7,637,127
Commissions to agents due or accrued and deposit type contract funds		250,311
Commissions and expense allowances payable on reinsurance assumed		5,062
General expenses due or accrued		6,352,717
Taxes, licenses and fees due or accrued, excluding federal income taxes		1,220,069
Current federal and foreign income taxes		4,359,141
Unearned investment income		5,735,847
Amounts withheld or retained by company as agent or trustee		64,995,136
Amounts held for agents' account		3,521,202
Remittances and items not allocated		1,446,724
Borrowed money		150,080,833
Miscellaneous liabilities:		
Asset valuation reserve (AVR)		16,115,879
Payable to parent, subsidiaries and affiliates		273,011
Aggregate write-ins for liabilities		30,415,652
Total Liabilities	$	3,218,499,974

CAPITAL AND SURPLUS

Common capital stock		2,500,000
Gross paid in and contributed surplus		240,506,890
Aggregate write-ins for special surplus funds		5,801,794
Unassigned funds (surplus)		92,337,206
Surplus		338,645,890
Total Capital and Surplus	$	341,145,890
Totals of Liabilities, Capital and Surplus	$	3,559,645,864

BENEFICIAL LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
For the Year Ended December 31, 2007

INCOME		
Premiums and annuity considerations for life and accident and health policies and contracts	$	329,331,095
Considerations for supplementary contracts with life contingencies		1,181,004
Net investment income		223,964,914
Amortization of interest maintenance reserve (IMR)		1,505,230
Commissions and expense allowances on reinsurance ceded		19,089,145
Reserve adjustments on reinsurance ceded		99,538,045
Aggregate write-ins for miscellaneous income		390,171
Totals	$	674,999,604
BENEFITS		
Death benefits		68,351,566
Matured endowments		276,879
Annuity benefits		52,344,384
Disability benefits and benefits under accident and health contracts		771,728
Surrender benefits and other fund withdrawals for life contracts		286,166,091
Group conversions		(34,076)
Interest and adjustments on contract or deposit-type contract funds		20,921,332
Payments on supplementary contracts with life contingencies		3,601,784
Increase in aggregate reserves for life and accident and health policies and contracts		103,644,984
Totals	$	536,044,672
EXPENSES		
Commissions on premium and annuity considerations and deposit-type contract funds		34,662,324
Commissions and expense allowances on reinsurance assumed		437,605
General insurance expenses		37,821,900
Insurance taxes, licenses and fees, excluding federal income taxes		6,679,426
Increase in loading on deferred and uncollected premiums		303,767
Aggregate write-ins for deductions		(2,291,602)
Totals	$	77,613,420
TOTAL BENEFITS AND EXPENSES		
Net gain from operations before dividends to policyholders and federal income		61,341,512
Dividends to policyholders		(2,916,639)
Net gain from operations after dividends to policyholders and before federal income taxes		58,424,873
Federal and foreign income taxes incurred		(14,519,577)
Net gain from operations after dividends and taxes and before realized capital		43,905,296
Net realized capital gains (losses)		(218,371,800)
Net income	$	(174,466,504)

BENEFICIAL LIFE INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
December 31, 2004 through December 31, 2007

	2004	2005	2006	2007	NOTES
Capital and surplus, December 31, prior year	$ 208,948,663	$ 233,211,163	$ 254,789,199	$ 279,092,489	
Net income	26,263,960	25,387,228	29,063,580	(174,466,504)	
Change in net unrealized capital gains or (losses) less capital gains tax	3,678,743	1,558,268	6,590,092	(1,233,656)	
Change in net unrealized foreign exchange capital gain (loss) exchange capital gain (loss)				296,605	
Change in net deferred income tax	46,092	2,903,623	(1,312,832)	73,859,261	
Change in non-admitted assets and related items	2,418,767	(1,369,287)	(984,183)	(79,692,220)	
Change in reserve on account of change in valuation basis (increase) or decrease			(693,514)	10,391,113	
Change in asset valuation reserve	(8,290,922)	(5,644,607)	(8,670,583)	15,574,764	
Cumulative effect of changes in accounting principles			(846,458)		
Surplus adjustments:					
Paid In		5,400,000		206,000,000	
Dividends to stockholders		(5,500,000)			
Aggregate write-ins for gains and losses in surplus	145,860	(1,157,189)	1,157,189	11,324,038	
Net change in capital and surplus for the year	24,262,500	21,578,036	24,303,291	62,053,401	
Capital and surplus, December 31, current year	$ 233,211,163	$ 254,789,199	$ 279,092,490	$ 341,145,890	(1)

NOTES TO FINANCIAL STATEMENTS

1. Capital and surplus $341,145,890

The Company's capital and surplus was determined by the examination to be $341,145,890, as reported in its 2007 Annual Statement.

The Company's minimum capital requirement was $400,000 pursuant to U.C.A. § 31A-5-211. The Company had total adjusted capital of $358,792,534, as of December 31, 2007, as defined by U.C.A. § 31A-17-601, which exceeded the authorized control level risk-based capital (RBC) requirement of $50,212,497 by $308,580,047.

2. Bonds $3,137,107,738

In the third quarter 2007, the Company responded to the housing and mortgage market deterioration by evaluating its sub-prime and Alt-A positions and determining the potential losses therein. Based on the analysis of a nationally-recognized valuation firm, the Company determined that some of its securities future cash flows would not meet contractual obligations. The expected shortfall in cash flows caused an other-than-temporary impairment (OTTI) in the amount of $221,872,790 in gross capital losses to be recorded. As a result of the impairment losses, DMC infused $206,000,000 in paid-in capital in 2007. No repayment terms were explicit or implied in this capital contribution.

The Company continues to have significant downside investment risk, due to its relatively high proportion of mortgage backed securities and collateralized debt obligations. Future OTTIs of these assets may be required and additional capital infusions by DMC may be necessary in order to maintain the Company's capital and surplus position. DMC management has demonstrated its willingness to provide capital infusions in the past and has continued to do so in calendar year 2008.

SUMMARY OF EXAMINATION FINDINGS

Items of significance commented on in this report are summarized below:

1. The Company's capital and surplus was determined to be $341,145,890 as reported for the year ended December 31, 2007. The Company's minimum capital requirement was $400,000 pursuant to U.C.A. § 31A-5-211. The Company had total adjusted capital of $358,792,534, as of December 31, 2007, as defined by U.C.A. § 31A-17-601, which exceeded the authorized control level risk-based capital (RBC) requirement of $50,212,497 by $308,580,047. (NOTES TO FINANCIAL STATEMENTS)

2. Beneficial Investment Services, Inc., a broker dealer subsidiary which receives commissions on sales of Securities and Exchange Commission (SEC) registered product was created in March 2006. In December of 2007, the company created its captive insurance agency, Beneficial Reinsurance Company to provide reserve

relief for in-force secondary guarantee universal life business. (TRANSACTIONS WITH AFFILIATES).

3. A sample of universal life policies with term riders was selected for testing. In four incidents (29%) the illustration narrative summary regarding the Term Life Rider was inconsistent with the illustration's policy values chart. Additionally, in one incidence (7%), the illustration was not in the file. However, a summary of the policies provided by the Company was inconsistent. Specifically, one file indicated that there was a 15-year term rider, which was expiring in 2058 and the second policy indicated that there was no term rider. The findings indicate the Company did not comply with U.A.C. Rule R590-177 by ensuring illustrations are consistent with the product being sold.

   The goal of Utah Administrative Code (U.A.C.) Rule R590-177 is to ensure that illustrations do not mislead purchasers of life insurance and to make illustrations more understandable. It appears a control weakness exists in this area. To mitigate exposure to legal/regulatory risk, we recommend the Company put controls in place to ensure illustrations are consistent with the product being sold. A quality control process should be developed that will follow the policy from the development stage into the production stage by checking marketing materials for consistency with the illustrations prepared by the illustration actuary. (POLICY FORMS AND UNDERWRITING)

4. Examination samplings of data provided by the Company determined there were multiple inconsistencies between the Company's records of appointed agents, as they were not in the Department records. The Company did not comply with U.C.A. § 31A-23a-115(1). (TERRITORY AND PLAN OF OPERATION).

   To mitigate exposure to legal/regulatory risk, the Company should immediately reconcile its appointed producer list with the Department's list. Thereafter, the Company should develop a procedure that will ensure timely notification of producer appointments and terminations with regular reconciliations to ensure compliance with U.C.A. § 31A-23a-115.

5. The list of complaints received by the Department was compared to the complaints identified by the Company. It was noted that four of the thirteen complaints (31%) received by the Department were not recorded on the complaint log maintained by the Company.

   To mitigate exposure to legal/regulatory risk, the Company should immediately reconcile its complaint log with the Utah Insurance Department's records of formal complaints. Typically, a Company's complaint log will include complaints that were resolved prior to escalation to a formal complaint with the Department, in addition to the formal complaints. Thereafter, the Company should develop a procedure that will ensure a complete record of the complaint resolutions and regular reconciliations of the complaint log. (TREATMENT OF POLICYHOLDERS)

6. The control activity of "management reviews policies to assure that all underwriting and credit reviews have been satisfactorily completed" (Company's underwriting audit process) was not performed consistently, or as extensively as expected by management. Controls were not operating consistently throughout the period due primarily to employee turnover and a vacancy in the Director of Underwriting position. This lack of management review could lead to the underwriting of and entering into policies with unacceptable risks. (ACCOUNTS AND RECORDS)

7. Review of a judgmental sample of 23 suspense accounts indicated areas where the Company could enhance its internal controls. Failure to appropriately control the clearing of suspense accounts presents opportunity for unauthorized and fraudulent transactions to occur. (ACCOUNTS AND RECORDS)

   We recommend the Company implement measures to enhance internal controls over its suspense account reconciliation process.

ACKNOWLEDGMENT

In addition to the undersigned, David L. Flores, CPA, CFE (fraud); Aaron Phillips; Malis Rasmussen, APIR; Clarissa Crisp; Hermoliva B. Abejar; and William Stimpson participated in the examination representing the Utah Insurance Department. Jacob W. Garn, CPA, MBA, AFE, Chief Examiner and Colette Hogan Sawyer, CFE, CPM, Assistant Chief Examiner supervised the examination. Participants in the examination from RSM McGladrey team were Alea Talbert-Pence, CFE, Jan M. Moenck, CFE, Margaret C. Spencer, CLU, CFE, CIE and Kris Radmall, CIE for the market conduct review. Mike Mayberry, FSA, MAAA and Alexis Bash, ASA, MAAA, consulting actuaries from Lewis & Ellis, conducted the actuarial phases of the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

Cathie A. Stewart

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